

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CITY OF MASON, DDA	County INGHAM
Audit Date 6/30/05	Opinion Date 8/19/05	Date Accountant Report Submitted to State: 12/15/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

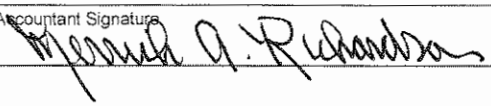
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

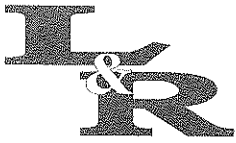
We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.			
Street Address 1000 COOLIDGE ROAD	City EAST LANSING	State MI	ZIP 48823
Accountant Signature 		Date 12/15/05	

CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET	7
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE	8
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL	9
NOTES TO FINANCIAL STATEMENTS	11-14
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	15



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Mason Downtown
Development Authority
Mason, Michigan

We have audited the accompanying basic financial statements of the governmental activities of the CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City of Mason Downtown Development Authority as of June 30, 2005, and the results of its operations for the year then ended, in conformity with the U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005 on our consideration of the City of Mason Downtown Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Layton + Richardson P.C.

Certified Public Accountants

August 19, 2005
East Lansing, Michigan

City of Mason Downtown Development Authority

Management's Discussion and Analysis

Our discussion and analysis of the Downtown Development Authority of the City of Mason ("MDDA") financial performance provides an overview of the MDDA's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the MDDA's financial statements.

Financial Highlights

- A traffic study was commissioned for the alley known as Ingham Court. A design expert was retained to develop a plan for visual and functional infrastructure improvements to this alley.
- New Christmas decorations for the entire downtown were funded in a partnership with the Mason Area Chamber of Commerce.
- Decorative backer boards were obtained and installed on the parking signs in the Courthouse Square Area. The Streetscape flower pot program was continued in partnership with the Mason Area Chamber of Commerce.
- Commitments were made for additional facade grant projects. However, these projects either carried over past the end of the fiscal year or were not commenced, so very few dollars were expended on this program during the subject fiscal year.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the MDDA as a whole and present a longer-term view of the MDDA's finances. The Statement of Revenues, Expenditures, and Changes in Fund Balance provides a more detailed report of the income and expenditures of the MDDA during the fiscal year.

Reporting the MDDA as a Whole

One of the most important questions asked about the MDDA's finances is, "Is the MDDA as a whole better off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the MDDA as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the MDDA's *net assets* and changes in them. You can think of the MDDA's net assets – the difference between assets and liabilities – as one way to measure the MDDA's financial health, or *financial position*. Over time, *increases* or *decreases* in the MDDA's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the MDDA's captured property tax base, to assess the *overall health* of the MDDA:

City of Mason Downtown Development Authority

Management's Discussion and Analysis (continued)

In the Statement of Net Assets and the Statement of Activities, the MDDA is shown as a governmental activity while within the City of Mason's audit they are shown as a component unit:

- Governmental activities – The MDDA's services are reported here. Property taxes finance most of these activities.

The Mason Downtown Development Authority as a Whole

Table 1 was summarized from the MDDA's Statement of Net Assets. The net assets of the MDDA increased from \$174,592 to \$189,283, an increase of \$14,691 or 8.41%. A decrease of \$18,000 was budgeted. The variance was primarily the result of tax revenue and interest income both exceeding anticipated levels and because the facade grant program expenditures were well below anticipated levels. As a result, the DDA fund balance increased even though a decrease had been budgeted. A comparison of the 2003-2004 and 2004-2005 fiscal years is presented below in Table 1.

Table 1
Net Assets

	2003/2004	2004/2005
Current and other Assets	\$218,395	\$190,205
Total liabilities	<u>43,803</u>	<u>922</u>
Total net assets/fund balance	\$174,592	\$189,283

Governmental Activities

As stated previously, the net assets of the MDDA's fund balance increased by \$14,691 or 8.41%. The MDDA has no debt covenants so the entire fund balance is unrestricted.

Table 2 was summarized from the MDDA Statement of Activities. This table summarizes MDDA revenues and expenses. A comparison of the 2003-2004 and 2004-2005 fiscal years is presented in Table 2.

Table 2
Changes in Net Assets

Revenues:	2003/2004	2004/2005
Property Taxes	\$ 41,631	\$ 56,603
Interest	<u>1,450</u>	<u>2,789</u>
Total Revenues	\$ 43,081	\$ 59,392

City of Mason Downtown Development Authority

Management's Discussion and Analysis (continued)

Expenses:		
General Government	\$ 70,481	\$ 44,701
Debt Service	<u>0</u>	<u>0</u>
Total Expense	\$ 70,481	\$ 44,701
Increase (Decrease) in		
Net Assets	<u>(\$27,400)</u>	<u>\$ 14,691</u>
Net Assets, July 1	<u>\$201,992</u>	<u>\$174,592</u>
Net Assets, June 30	\$174,592	\$189,283

Total revenue from all sources totaled \$59,392, of which 95.3% or \$56,603 is from captured property taxes. The remaining revenue is interest earned on the fund balance. The MDDA captured the City of Mason millage rate of 13.25 mills, 3.8112 mills from Lansing Community College, Ingham County millage of 8.6466, and Capital Area District Library millage of 1.4423.

The \$44,701 expended for governmental activities was funded from the property taxes.

The Mason Downtown Development Authority's Funds

The MDDA received a total of \$56,603 in captured property taxes. This represented a significant, though anticipated, increase from the prior year. MDDA expended funds on various projects this year including the flower pot program, new Christmas decorations and the Ingham Court traffic study. The MDDA presently has no debt service.

Administrative expenses, including salaries, contract services, publishing and advertising, utilities, office rental, supplies, dues and subscriptions, and accounting fees, were paid in the sum of \$28,964.

Mason Downtown Development Authority Budgetary Highlights

The difference between the original budget and the amended budget for the MDDA was \$30,565 due almost entirely to there being no need to fund facade grants.

The amended budget reflects slightly higher tax revenue and interest income than anticipated.

Capital Asset and Debt Administration

Capital Assets

No capital assets of the City of Mason previously contributed by the DDA were disposed of.

Debt

At year-end, the MDDA had no outstanding debt.

City of Mason Downtown Development Authority

Management's Discussion and Analysis (continued)

Economic Factors and Next Year's Budget and Rates

- Projected captured taxable value as determined by the City Assessor.
- Rate of return on invested fund balances.

These factors were considered in preparing the MDDA's budget for Fiscal Year 2004-2005.

The MDDA reviews its current budget to determine available fund balances to be appropriated for the new fiscal year's budget. This, along with the projected captured taxable value obtained from the city assessor, provides the basis for establishing the annual budget. Funds are appropriated based upon projections made by the City of Mason staff, the MDDA Executive Director, and the MDDA Board. Decreases in the fund balance in the past few years have been anticipated, expected and built into each budget. The amounts of such decreases are projected by the City of Mason and the MDDA.

The MDDA boundaries were modified in 2005 resulting in an expansion of the MDDA district which will, over time result in increased tax increment funds for the MDDA.

Request For Information

This discussion and analysis is designed to provide a general overview of the MDDA's finances for all those with an interest in it's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Mason, Administrator's office.

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET**

JUNE 30, 2005

	DOWNTOWN DEVELOPMENT AUTHORITY GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash and cash equivalents	\$ 134,612	\$	\$ 134,612
Receivables			
Taxes	51,789		51,789
Accounts	172		172
Deferred expenses	718		718
Due from other funds	<u>2,914</u>	<u> </u>	<u>2,914</u>
	<u>\$ 190,205</u>	<u>\$</u>	<u>\$ 190,205</u>
LIABILITIES AND FUND BALANCE/NET ASSETS			
LIABILITIES			
Due to other funds	\$ 922	\$	\$ 922
FUND BALANCE/NET ASSETS			
Unreserved	<u>189,283</u>	<u> </u>	<u>189,283</u>
	<u>\$ 190,205</u>	<u>\$</u>	<u>\$ 190,205</u>

See accompanying notes to financial statements.

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	DOWNTOWN DEVELOPMENT AUTHORITY GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ACTIVITIES
EXPENDITURES			
General government	\$ <u>44,701</u>	\$ _____	\$ <u>44,701</u>
GENERAL REVENUES			
Property taxes	56,603		56,603
Interest	<u>2,789</u>	_____	<u>2,789</u>
	<u>59,392</u>	_____	<u>59,392</u>
CHANGES IN FUND BALANCE/NET ASSETS	14,691		14,691
FUND BALANCE/NET ASSETS, JULY 1	<u>174,592</u>	_____	<u>174,592</u>
FUND BALANCE/NET ASSETS, JUNE 30	\$ <u><u>189,283</u></u>	\$ <u><u> </u></u>	\$ <u><u>189,283</u></u>

See accompanying notes to financial statements.

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Taxes	\$ 57,000	\$ 56,075	\$ 56,603	\$ 528
Interest	<u>1,500</u>	<u>4,480</u>	<u>2,789</u>	<u>(1,691)</u>
TOTAL REVENUES	<u>58,500</u>	<u>60,555</u>	<u>59,392</u>	<u>(1,163)</u>
EXPENDITURES				
Salaries	22,600	23,165	23,159	6
Contract services	500	1,275	1,223	52
Accounting fees	800	800	800	
Conference and training	300	300		300
Publishing and advertising	1,000	500	519	(19)
Utilities	1,200	1,285	1,281	4
Supplies	500	700	682	18
Dues and subscriptions	100	100	100	
Rent	1,200	1,200	1,200	
Loans and grants	25,000	500	318	182
Downtown streetscape	20,500	15,500	14,843	657
Miscellaneous	<u>2,800</u>	<u>610</u>	<u>576</u>	<u>34</u>
TOTAL EXPENDITURES	<u>76,500</u>	<u>45,935</u>	<u>44,701</u>	<u>1,234</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(18,000)	14,620	14,691	71
FUND BALANCE, JULY 1	<u>174,592</u>	<u>174,592</u>	<u>174,592</u>	
FUND BALANCE, JUNE 30	<u>\$ 156,592</u>	<u>\$ 189,212</u>	<u>\$ 189,283</u>	<u>\$ 71</u>

See accompanying notes to financial statements.

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1: REPORTING ENTITY

In accordance with the provision of Act 197 of the Public Acts of 1975 the City Council of the City of Mason established, by ordinance, the Downtown Development Authority on October 15, 1984. The purpose of the Downtown Development Authority is to operate for and on behalf of the City and in cooperation with the City Council in order to correct and prevent deterioration of the Downtown District of the City, to promote economic growth and revitalization, to encourage historic preservation, to address problems of urban decline, to strengthen existing areas and encourage new private development in the Downtown District. The Downtown Development District includes approximately 20 City blocks in which the primary zoning is commercial. The Downtown Development Authority developed a 20-year development plan and tax increment finance plan which were both adopted by the City Council on March 16, 1987. Downtown Development Authority Bonds were sold to finance certain improvements as outlined in the Downtown Development Plan. Tax increment financing revenues captured from eligible property is used to pay for the bond and interest payments as well as for other public improvements within the District. Any tax revenues not required by the Downtown Development Authority to finance public improvements within the district shall revert proportionally to the respective taxing jurisdiction.

In accordance with the criteria established by the National Council on Governmental Accounting (NCGA) Statement 3, the Downtown Development Authority is considered a component unit of the City of Mason, Michigan for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the City to significantly influence operations, the accountability for fiscal matters including the level of City financing and/or moral and legal responsibility for long-term debt.

The financial statements of the City of Mason Downtown Development Authority are presented as the financial statements of a fund which is an integral part of the financial reporting oversight unit of the City of Mason, Michigan.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Mason Downtown Development Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report.

A. Government-Wide and Fund Financial Statement

The government-wide financial statement (i.e. the statements of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government of the City of Mason Downtown Development Authority. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. The City of Mason Downtown Development Authority has no business-type activities.

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded

A. Government-Wide and Fund Financial Statement - Concluded

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

B. Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City of Mason Downtown Development Authority.

C. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Mason Downtown Development Authority as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year.

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Concluded

D. Capital Assets - Concluded

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on the government-wide statement. Depreciation is applied over the estimated useful life of capital assets.

Straight-line and declining balance depreciation methods are used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvement	10-20 years
Buildings	10-40 years

At June 30, 2005, the City of Mason Downtown Development Authority had no capital assets.

E. Long-Term Liabilities

In the government-wide financial statement, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt received, are reported as debt service.

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Downtown Development Authority as of June 30, is as follows:

	2005
Cash in bank	\$ 5,612
Certificates of deposit	<u>129,000</u>
Total	<u>\$ 134,612</u>

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Concluded

JUNE 30, 2005

NOTE 3: CASH AND CASH EQUIVALENTS - Concluded

State statutes authorize the City Treasurer to invest in obligations of the U.S. Treasury, agencies and instrumentalities; certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC); commercial paper rated in the three highest rate classifications of two rating services; United States government or federal agency obligation repurchase agreements; and mutual funds composed of investments which are legal for direct investment by local units of government in Michigan.

The Downtown Development Authority's investments (including those presented as cash) are categorized as follows to give an indication of the level of risk assumed by the Downtown Development Authority. Category 1 includes deposits and investments that are insured, registered or for which the securities are held by the Downtown Development Authority or its agent in the Downtown Development Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the brokers' or dealers' trust department or agent in the Downtown Development Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Downtown Development Authority's name.

At June 30, 2005, the Downtown Development Authority's investments were categorized as follows:

Uninsured and uncollateralized \$ 129,000

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Downtown Development Authority's deposits may not be returned to it. The Downtown Development Authority does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$132,705 of the Downtown Development Authority's bank balance of \$132,705 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$ 132,705

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2005, are as follows:

FUND	DUE TO	FUND	DUE FROM
Downtown Dev. Authority	\$ <u>2,914</u>	General	\$ <u>2,914</u>
General	\$ <u>922</u>	Downtown Dev. Authority	\$ <u>922</u>



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
City of Mason Downtown
Development Authority
Mason, Michigan

We have audited the financial statements of the governmental activities, and the general fund of the CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY, as of and for the year ended June 30, 2005, which collectively comprise the CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY's basic financial statements and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mason Downtown Development Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mason Downtown Development Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the City Council, management and federal agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton + Richardson PC
Certified Public Accountants

East Lansing, Michigan
August 19, 2005